

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 09016

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, EC

SUBJECT: EC MONETARY COMMITTEE MEETING

REF: EC BRUSSELS 6240

1. SUMMARY: THE EC MONETARY COMMITTEE MET ON SEPTEMBER 10 IN COPENHAGEN. THE ITALIAN BID FOR EC SUPPORT ON THEIR REQUEST TO MODIFY IMF GOLD SALES POLICY MET WITH ONLY LIMITED SUCCESS. THE COMMITTEE DISCUSSED AT SOME LENGTH BUT INCONCLUSIVELY THE DUTCH PROPOSAL TO ESTABLISH TARGET ZONES FOR EXCHANGE RATES OF MEMBER COUNTRIES. CONSENSUS WAS GENERALLY THAT PROPOSAL WAS CONSTRUCTIVE, BUT PREMATURE. THE COMMITTEE WILL RETURN TO THIS MATTER AND THE RELATED TOPIC OF MONETARY GROWTH TARGETS AT ITS NEXT MEETING OCTOBER 19. END SUMMARY.

2. FOLLOWING RETURN OF COMMISSION OFFICIALS TO BRUSSELS, MISSION WAS ABLE TO OBTAIN FOLLOWING RUNDOWN ON MONETARY COMMITTEE'S MEETING HELD IN COPENHAGEN SEPTEMBER 10. CONSIDERABLE PRESS ATTENTION HAS BEEN PAID TO THIS MEETING, BUT OUR KNOWLEDGE OF INTERNAL DELIBERATIONS SHOULD NOT BE REVEALED.

3. MORNING SESSION WAS LARGELY DEVOTED TO DISCUSSIONS OF ITALIAN BID FOR EC SUPPORT IN ITS REQUEST THAT IMF GOLD

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SALES BE MODIFIED SO AS TO LIMIT THEIR DEPRESSING EFFECT

ON GOLD PRICES. ITALIANS ARGUED THAT FALLING PRICE OF GOLD WAS DISRUPTIVE TO MONETARY RELATIONSHIPS, PARTICULARLY AMONG EC MEMBERS, AND COUNTER-PRODUCTIVE IN TERMS OF MAXIMIZING INTENDED BENEFITS FOR LDCS. THEY REPORTEDLY SOUGHT TO OBTAIN AGREEMENT THAT MEMBER STATES INSTRUCT THEIR IMF ED'S TO PRESS FOR SPECIFIC CHANGES IN IMF GOLD AUCTION PROCEDURES. THESE INCLUDED: (A) A POSTPONEMENT OF SEPTEMBER 15 AUCTION; (B) A STRETCHING OUT OF THE TIMING OF SUBSEQUENT AUCTIONS; AND (C) AGREEMENT TO A FORMALLY AGREED CUT-OFF PRICE BELOW WHICH THE IMF WOULD NOT ACCEPT OFFERS. ACCORDING TO SOURCE HERE ITALIANS DID NOT SUGGEST THAT BASIC JAMAICA ACCORD BE ALTERED.

4. ITALIANS APPARENTLY RECEIVED NO SUPPORT ON POSTPONEMENT OF SEPTEMBER 15 AUCTION OR SPECIFIC INSTRUCTIONS TO IMF EDS. FRENCH REPRESENTATIVE (DE LAROSSIERE) MADE LONG STATEMENT EXPRESSING STRONG SYMPATHY WITH ITALIAN CONCERN AND OBJECTIVE AND APPEALING FOR "REASONABLE" APPROACH. THERE WAS, OF COURSE, NO QUESTION OF DEPARTING FROM THE JAMAICA AGREEMENT. HOWEVER, IMF EDS, IN THEIR IMPLEMENTING DECISION, HAD GONE BEYOND THAT ACCORD IN SETTING UP UNNECESSARILY RIGID PROCEDURES. DECISIONS TAKEN IN THE EXECUTIVE BOARD COULD BE REVIEWED AND MODIFIED THERE WITHOUT THE NEED FOR ANY DECISIONS BY FINANCE MINISTERS. HE DID NOT SUPPORT POSTPONEMENT OF SEPTEMBER 15 AUCTION, BUT IF PRICE WAS NOT FAVORABLE, NEW CONSIDERATION SHOULD BE GIVEN TO ITALIAN PROBLEMS. EXECUTIVE DIRECTORS SHOULD BE INSTRUCTED TO TAKE A MORE FLEXIBLE ATTITUDE, ADJUSTING PROCEDURES WITH EXPERIENCE. IMF STAFF COULD BE CALLED UPON FOR SPECIFIC SUGGESTIONS. HE DID NOT GIVE SUPPORT TO ITALIAN SUGGESTION FOR A CUT-OFF PRICE.

5. DUTCH WERE ALSO SYMPATHETIC TO ITALIAN PLEA, ARGUING FOR SHOW OF SUPPORT INTEREST OF COMMUNITY SOLIDARITY. HOWEVER, THEY WERE AGAINST POSTPONEMENT OF SEPTEMBER 15 AUCTION AND AGAINST IDEA OF FORMAL AGREED CUT-OFF PRICE. UK REP WAS LEAST SYMPATHETIC. THEY FELT ITALIAN ARGUMENTS WERE EXAGGERATED, AND WERE NOT IMPRESSED BY LDC POINT. PROBLEM NEEDED TO BE DEALT WITHIN PRACTICAL TERMS. GOD SHOULD BE "GOTTEN DOWN WHERE IT BELONGS."

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6. POEHL EXPRESSED THE COMMITTEE CONSENSUS THAT THE SEPTEMBER 15 AUCTION SHOULD BE HELD, MEMBER COUNTRIES SHOULD HAVE THEIR EDS FOLLOW A FLEXIBLE APPROACH ON FUTURE IMF AUCTION PROCEDURES, BUT THE COMMITTEE WAS NOT RECOMMENDING ANY SPECIFIC CHANGES. (THIS WAS THE LINE TAKEN BY POEHL IN HIS PRESS CONFERENCE, WHEN HE APPARENTLY REFUSED TO PROVIDE SPECIFIC EXAMPLES OF ADDITIONAL

FLEXIBILITY.)

7. THE COMMITTEE DEVOTED THE AFTERNOON SESSION TO A DISCUSSION OF THE DUTCH PROPOSAL ON EC EXCHANGE RATE ARRANGEMENTS. THE NETHERLANDS REPRESENTATIVE TABLED A SHORT "WORKING PAPER." WE HAVE OBTAIN A COPY OF THIS PAPER (SUMMARIZED BRIEFLY BELOW) AND ARE POUCHING COPIES TO STATE (RPE-GELBARD) AND TREASURY (OASIA-SYVRUD). (OUR POSSESSION OF THE PAPER SHOULD NOT BE DIVULGED.) THE COMMISSION ALSO PREPARED TWO PAPERS, ONE ON EXCHANGE-RATE COORDINATION, ANOTHER ON THE GERMAN MONETARY TARGET PROPOSAL. WE HAVE NOT BEEN ABLE, AT LEAST AS YET, TO OBTAIN THESE PAPERS.

8. IN ORDER TO PROVIDE A FRAMEWORK FOR EUROPEAN EXCHANGE-RATE COOPERATION AND OBLIGATIONS FOR COUNTRIES OUTSIDE THE SNAKE (WHICH WOULD BE MAINTAINED) THE PAPER PROPOSES THE ESTABLISHMENT OF TARGET ZONES TO BE DEFINED IN TERMS OF EFFECTIVE RATES. WIDTH OF ZONE IS DUSCUSSED, BUT NOT SPECIFIED. THREE OPTIONS ARE SUGGESTED: (A) TARGET ZONES FOR ALL INDIVIDUAL EC COUNTRIES (PLUS MAINTENANCE OF CROSS RATES WITHIN THE SNAKE); (B) TARGET ZONES FOR NON-SNAKE COUNTRIES PLUS ONE FOR SNAKE AS WHOLE; (C) TARGET ZONES FOR NON-SNAKE COUNTRIES ONLY. TARGET ZONES WOULD BE SET OR REVISED IN CONSULTATIONS WITH MEMBERS (OBJECTIVE INDICATORS ARE REJECTED). THEY WOULD AIM AT LIMITING RATE FLUCTUATIONS, BUT WOULD IMPOSE NO OBLIGATION TO INTERVENE TO KEEP THE RATE WITHIN THAT ZONE. COUNTRIES WOULD BE OBLIGED TO REFRAIN FROM POLICY MEASURES THAT PUSH THE RATE OUTSIDE THE ZONE IN A DOWNWARD DIRECTION. IN A STRICTER OPTION, COUNTRIES WOULD BE EXPECTED TO USE MONETARY POLICY TO BRING DEPRECIATED RATE BACK UP INTO THEIR ZONE, OR TO CONSULT WITHIN COMMUNITY IF NOT PREPARED

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TO DO SO. PAPER EXPHASIZES THE USE OF MONETARY POLICY, RATHER THAN INTERVENTION, AS THE PRIMARY SHORT-TERM INSTRUMENT TO MANAGE EXCHANGE RATES.

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9. DUTCH (OORT) REPORTEDLY GAVE ONLY MILD SUPPORT TO THE PROPOSAL IN THEIR WORKING PAPER. (ONLY THE COMMISSION IS SAID TO HAVE "WHOLEHEARTEDLY" SUPPORTED IT.) THEY EMPHASIZED NEED TO GET COUNTRIES' COOPERATION ON EXCHANGE-RATE POLICY ON A FIRM BASIS, AND THE NEED TO AVOID COMPETITIVE DEPRECIATION.

10. FRENCH DESCRIBED THEMSELVES AS NOT FAR FROM OORT POSITION, RECALLING DIFFERENCES AND SIMILARITIES WITH THE PROPOSAL THEY HAD MADE LAST SEPTEMBER. DESPITE SIMILARITIES TO EARLIER FRENCH PROPOSAL, IT WOULD BE IMPOSSIBLE FOR FRENCH TO PARTICIPATE IN SUCH A SCHEME UNDER CURRENT CODITIONS. THEY CRITICIZED INADEQUATE ATTENTION TO STABILITY RE DOLLAR, AND INSUFFICIENT EMPHASIS ON INTERVENTION OBLIGATIONS. (THEY ALSO PUT DOWN THE SNAKE AS NOT MAKING MUCH SENSE IN THE ABSENCE OF ANY POLICY RE THE DOLLAR.) EXCHANGE RATE POLICY SHOULD PREFERABLY BE ESTABLISHED ON A GLOBAL BASIS. OORT PROPOSAL SHOULD BE GIVEN FURTHER STUDY.

11. THE GERMANS (POEHL) EMPHASIZED THE BENEFITS OF MONETARY DISCIPLINE IMPOSED BY SNAKE, AND SUGGESTED THAT THINGS MIGHT HAVE BEEN BETTER FOR UK HAD THEY REMAINED IN SNAKE. ADEQUATE CREDIT HAD BEEN MADE AVAILABLE TO COUNTRIES NEEDING IT. FLOATING HAD NOT, IN FACT, LED TO COMPETITIVE CONFIDENTIAL

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DEPRECIATION, TO GREAT INCREASE IN INSTABILITY (REFERRING TO DOLLAR -DM RATE), NOR TO INCREASED SPECULATION. CONSULTATION ON EXCHANGE RATES IS ALREADY HIGHLY DEVELOPED AMONG CENTRAL BANKS. COUNTRIES ARE FAR FROM ACHIEVING THE PRE-CONDITIONS NECESSARY FOR ESTABLISHING SUCH A SYSTEM. FRG WOULD NOT REJECT IT OUT OF HAND, BUT COUNTRIES

FIRST NEED TO CONCENTRATE ON GETTING INFLATION DOWN AND ACHIEVING BETTER CONVERGENCE IN INFLATION RATES.

12. THE ITALIAN SPOKESMAN (MAGNIFICO) TOOK A MORE FAVORABLE VIEW, TERMING THE PROPOSAL CONSTRUCTIVE AND INTERESTING. IT WAS NECESSARY TO TRY TO AVOID THE VICIOUS CIRCLE WITH INFLATION AND DEPRECIATION EACH REINFORCING THE OTHER. HOWEVER, DUTCH PAPER SEEMED BIASED AGAINST DEFICIT COUNTRIES. SYMMETRY WAS NEEDED. THE ONE-SIDED CONCERN OVER COMPETITIVE DEPRECIATION WAS NOT WARRANTED. ONE HAD TO DO AWAY WITH DISCRIMINATION BETWEEN SNAKE AND NON-SNAKE COUNTRIES.

13. THE UK DELEGATE (MITCHELL) ENDORSED MUCH OF THE FRENCH COMMENTARY. IT WAS IMPOSSIBLE TO CONTEMPLATE ENTERING INTO SUCH AN AGREEMENT UNDER CURRENT CONDITIONS. THERE WAS A NEED FOR A GLOBAL APPROACH. BUT EXCHANGE RATES POLICY CAN'T BE DISCUSSED IN ISOLATION. ALL ECONOMIC POLICIES MUST BE CONSIDERED, NOT JUST MONETARY POLICY. PRESENTLY THERE IS NO SHORTAGE OF CONSULTATIONS, BUT COUNTRIES WOULD SOONER OR LATER FACE A "QUANTUM JUMP" TO "MEANINGFUL" CONSULTATIONS IN WHICH THEY WOULD NEED TO BE PREPARED TO ACTUALLY MODIFY THEIR POLICIES EVEN IF IT MEANT GIVING UP DOMESTIC OBJECTIVES.

14. THE DANISH AND BELGIAN COMMENTS WERE GENERALLY FAVORABLE TO THE PROPOSAL. THE DANES CITED THE NEED FOR RAPPROCHEMENT BETWEEN SNAKE AND NON-SNAKE CURRENCIES, BUT IT WAS NECESSARY TO BE PATIENT. THE BELGIAN DELEGATE (VAN YPERSELE) THOUGHT EXCHANGE RATE ACTION MIGHT MAKE SOME CONTRIBUTION TOWARDS CONVERGENCE OF ECONOMIES. HE DOUBTED THAT ANYTHING COULD BE ACHIEVED AT A GLOBAL LEVEL IN THIS AREA.

15. THERE WAS VERY LITTLE DISCUSSION OF TECHNICAL DETAILS
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OF THE OPTIONS PRESENTED. WHAT DISCUSSION EXISTED TENDED TO EMPHASIZE TECHNICAL DIFFICULTIES IN OPTION B (E.G. DEFINING AN EFFECTIVE EXCHANGE RATE FOR SNAKE GROUP). OPTION C WAS CRITICIZED IN THAT IT IMPOSED TARGET ZONES VIS-A-VIS THIRD COUNTRY CURRENCIES ONLY ON NON-SNAKE COUNTRIES. THE POSSIBILITY OF INCONSISTENT OBJECTIVES IN OPTION A WAS GENERALLY DISMISSED AS UNLIKELY.

16. THE CONSENSUS GENERALLY COULD BE SUMMED UP AS A RECOGNITION OF THE CONSTRUCTIVE FEATURES OF THE PROPOSAL, BUT VIRTUALLY NO FEELING THAT THE TIME WOULD BE RIPE FOR IMPLEMENTATION OF THIS KIND OF SCHEME IN THE NEAR FUTURE.

IT WAS AGREED THAT FURTHER STUDY WAS NEEDED, INCORPORATING ALSO CONSIDERATION OF THE GERMAN PROPOSAL FOR MONETARY GROWTH TARGETS. THE LATTER WILL BE A MAJOR TOPIC FOR DISCUSSION AT THE NEXT MONETARY COMMITTEE MEETING OCTOBER 19. THE COMMISSION WILL BE PREPARING A DRAFT REPORT ON THE EXCHANGE-RATE PROPOSAL FOR THE NEXT MEETING. THE CONTROL OF EUROCURRENCY MARKETS WILL PROBABLY ALSO BE DISCUSSED AT THAT TIME, AND A JOINT REPORT OF THESE THREE TOPICS MIGHT BE EXPECTED TO GO TO THE FINANCE-MINISTER AT YEAR-END.

17. COMMENT: SOURCE HERE CREDITED PERSUASIVE AND MODERATE FRENCH STATEMENT FOR RELATIVELY SMOOTH ACHIEVEMENT OF COMPROMISE ON GOLD AUCTION ISSUE, WHICH GIVES APPEARANCE OF COMMUNITY SUPPORT FOR ITALIANS BUT DOES NOT COMMIT MEMBER STATES TO SPECIFIC POSITIONS. THERE SEEMS TO BE APPEARANCE OF GROUND BEING WELL PREPARED ON THIS ISSUE.

18. ON DISCUSSION OF DUTCH PROPOSAL, COUNTRY POSITIONS APPEAR TO HAVE BEEN MORE OR LESS PREDICTABLE. ALSO PREDICTABLE WAS THE LACK OF ANY INDICATION THAT PROPOSAL WILL HAVE ANY OPERATIONAL CONSEQUENCES IN THE FORESEEABLE FUTURE. HINTON

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